

Parkway Muni Resources  
*Investment Banking Consultants*

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Mr. Chairman and Members of the Committee,

My name is Jeff Seidel and I am the president of Parkway Muni Resources, a firm located in Minneapolis, Minnesota, which specializes in obtaining financing for non-profit, governmental and commercial enterprises, particularly for those firms or entities which do not easily qualify for conventional financing in either the commercial banking or the investment banking markets. Currently, many of my clients are American Indians, which as we all know, have a difficult time financing non-gaming activities in the conventional markets.

Today, I welcome the opportunity to comment on the unenviable task of financing the construction and capital improvements of BIA Schools throughout the nation. While most Public Schools are funded through locally generated taxes, based primarily on property values within a particular school district, the same does not hold true for almost all Indian School Districts. For the most part, as many of us know, the responsibility for funding new construction or capital improvements to BIA Schools rests entirely with the federal government.

For a number of years now, many Indian Educational organizations have embraced the concept of leveraging existing appropriations to create current dollars for the estimated \$866 million known backlog in BIA School construction and improvements. This concept of raising current dollars through the issuance of debt, with the repayment source being future appropriations, has been used for years in public schools and also on the county and state levels. Many of us on today's panels have sought the same solution on the federal level, only to find tremendous resistance from both the Department of Treasury and from those in the budgeting process. Other financing vehicles, such as contracting with the General Services Administration to lease the schools over a period of time, and leveraging those lease payments (as has been done for many federal buildings)- or utilizing the 638 capital reimbursement program, has met with opposition from both the capital markets and the federal agencies involved. While we continue to pursue all of these avenues, we also applaud the recent focus to simply appropriate the necessary money over the next five years to eliminate the backlog.

In any financing, the critical element which dictates the overall cost to the project is time. The time of repayment will dictate how much interest will have to be paid the lender. Many of us have focused on this element alone as the guiding factor in qualifying a financing vehicle for consideration. With direct funding, the interest cost to the project (i.e., a BIA School), is eliminated from the formula, and is picked up on the mandatory side of the budget.

But, the time element of the design and construction process is not eliminated, and this is where I wish to introduce the cost of inflation. Since many of these existing schools are deteriorating at a pace much greater than the rate of inflation, the existing process of "band-aiding" these schools has obviously reached its limit. But, the process of designing, funding and constructing new

schools, under the current BIA system, also has great inherent flaws. For instance, I use as an example, the new construction process for Marty Indian Schools in Marty, South Dakota. Under the current system, it took years for the budget of a new school to be established, which I believe was \$7 million. And by the time the final design was completed and funding in the amount of \$7 million was provided, the cost of construction had risen to over \$12 million. Without any means to raise the additional \$5 million, the Tribes just sat on the \$7 million, hoping that Congress would provide the remaining funds before too long. It did not. So, Marty was forced to use the \$7 million to construct one-half of a school facility, under the threat of recision, and, unfortunately, they will continue to beg for money from Congress to fund the other half without the benefit of being on the Bureau's priority list.

The great disparity of time between conception and construction allowed construction inflation (usually higher than the CPI) to become a huge factor. Simply put, the design period for BIA schools takes much, much longer than it does in the public schools. The designs created also more often than not do not reflect the environmental conditions of the state in which the school is located (i.e., flat roofs in South Dakota?). The funding process is a multi-stepped process (again, adding time) which adds only to the overall cost of the project. In sum, one of the largest problems with the current system is that it just takes too long to get from conception to construction.

One plan which I would ask the Committee to consider, is to allow the design and construction process to proceed locally, using bonded architects, engineers and construction companies, to use the trust departments of private financial institutions to maintain control over disbursement and re-investment of the funds; to allow Tribal Schools to raise "seed" money for professional services such as architects and engineers, through the issuance of debt guaranteed by the eventual direct funding of the entire project; and to have federal oversight come from an agency such as the Corps of Engineers, which has projects totaling over \$100 billion every year in progress, and whose job it is to complete projects a timely basis.

I am certain that an agency such as the Corps of Engineers has a better understanding of timetables and the need to complete a project in a timely manner, than the BIA. Oversight cannot be provided by the Bureau which, I believe, does not grasp any concept of time management for construction projects, and also which has shown an amazing capacity to blame others for its problems. Oversight by the Bureau would also pose a significant conflict of interest, whereby the Bureau would be policing itself, something which in my opinion, has often resulted in delay tactics and maintenance of the status quo.

Using local architects, the design will take into account the local environment. Also, local contractors would use Indians and other minorities to help build the school. But mostly, those firms which are use to designing and building public facilities, would complete the project in an accelerated manner, as compared to the current system, and thus remove the cost of construction inflation. Give them a budget, provide them with mandatory deadlines for this pilot program, and let them work with the local Tribal School District to complete the project on a timely basis.

My proposal then is to carve out some of the funds being appropriated for new school

construction for a Pilot Project, to use those funds as an add-on to moneys already advanced for the purpose of building new schools (i.e., Marty School) or for full funding of schools currently on the prioritization list. Take 3-5 projects on the prioritization list and allow local vendors, with federal oversight from an agency such as the Corps of Engineers, to design and build the schools under existing law. Allow these vendors to be paid either through nominal advances of direct project funds, or through the financing of these modest up front costs (usually less than \$250,000 to \$500,000) utilizing a guarantee of eventual direct funding. My opinion is that by the time other schools within the current Bureau system are finally designed, kids in these locally-built schools will be entering their new classrooms. In effect, localizing new school construction, in a manner similarly used by the Loneman School Corporation, will limit the significance of construction inflation on these schools, and thus save millions of dollars in band-aid repairs and wasted time.

Thank you for this opportunity to testify today. I would be pleased to respond to any questions you may have.